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TO RUEHC/SECSTATE WASHDC 4832
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RUEHBJ/AMEMBASSY BEIJING 2741
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SIPDIS

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SUBJECT: IMF REFORM: ECONOMISTS, OFFICIALS AT SINGAPORE CONFERENCE
OFFER ASIAN PERSPECTIVES

¶1. (SBU) Summary: Asian economists and officials attending a Singapore conference agreed that the International Monetary Fund's (IMF) voting and board structure must change to become more representative of Asia's dynamic economies. Despite low participation by Asian officials and regulators in financial sector programs, they want the IMF to improve its expertise in financial sector issues in both developing and developed countries -- especially in the context of current market turmoil. Many Asian players, particularly the Indonesians, criticize the inability of the ASEAN and ASEAN plus 3 (China, Japan, and South Korea) groupings to effectively force neighbors to address underlying macroeconomic and financial sector problems. Encouragingly, they favor enhanced links between their own regional economic integration initiatives and greater use of the IMF's macro-economic surveillance programs and expertise. End summary.

Asian Views of IMF's Future Role

¶2. (U) Senior Asian economic policy makers and academics held a closed-door, off-the-record discussion on "Asian Perspectives on the Future Role of the IMF" that the Lee Kuan Yew School of Public Policy in Singapore and the Friedrich-Ebert-Stiftung Foundation of Germany hosted on January 18. Approximately 50 high level representatives from central banks, finance ministries, development institutions, think tanks and universities across Asia, as well as from the United States and Germany, attended the full day of events. Many participants had spent at least part of their career working at the IMF. This conference follows similar meetings in Cape Town and Buenos Aires held last year to solicit regional views on IMF reforms.

Support for Quota Reform

¶3. (SBU) Regional participants concurred that reform of the IMF's governance structure is vital to give the institution more legitimacy in Asia. Except for the German representative, all participants agreed that the Europeans must give up a significant share of their quota and board seats in order to make the Fund more broadly representative of its membership. (Note: Quotas represent the share of the IMF's capital that countries must contribute, and also play a role in calculating the amount of resources a country is eligible to withdraw from the IMF for balance of payments support in an emergency. The 27 members of the European Union currently have 31 percent of the quota compared to the United States at 17 percent and Asian countries, which have a combined quota of 17.6 percent (see Table 1). The Europeans hold 8 of the 24 seats on the IMF

executive board. End note.)

Table 1. IMF Quotas for Selected Countries and Regions

United States	17.08	Germany	5.98
Japan	6.12	United Kingdom	4.94
China	3.72	France	4.94
India	1.91	Italy	3.24
Korea	1.35	Netherlands	2.37
Advanced countries (26)	60.51		
--excluding U.S. and Japan	37.32		
European Union (27)	31.60		
Developing Asia (32)	11.52		
Developing Asia plus Japan	17.64		

Source: Petersen Institute for International Economics Policy Brief
07-01, February 2007.

Rich Countries Disengaged From the IMF?

14. (SBU) Regional participants were critical of the quality of IMF staff, especially on financial sector issues, although they acknowledged that the Fund's "best and brightest" might be better utilized in "crisis" areas in other parts of the world. Many voiced the perception that rich countries are disengaged from the IMF. They accused rich countries of allowing the Fund to criticize smaller/poorer countries without heeding its advice themselves. They argued that the disengagement on developed country issues has resulted in a loss of expertise among Fund staff in cutting edge financial and economic issues. Some questioned, for example, why the Fund has not predicted the U.S. subprime crisis and why Fund staff were not out front telling the United States and Europe what to do about it. (Note: Since the conference, the IMF's managing

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director has vocally called on the United States and other countries with the requisite capacity to expand fiscal spending to offset a global slow down. End note.)

IMF Links to Regional Economic Initiatives

15. (SBU) Many of the regional participants, led by the Indonesians, were critical of their own ability to do proper macroeconomic surveillance as called for under the ASEAN or ASEAN plus 3 initiatives. They recognized that the non-confrontational approach known as the "ASEAN way" had led to low quality discussions with very little capacity to rein in poor economic performers. They also acknowledged that the limited number of well-trained regional economists makes it difficult to properly staff a regional institution to replicate the higher quality assessment provided by IMF surveillance programs, most notably the annual Article IV review.

16. (U) Participants noted that ASEAN plus 3 countries had taken steps to address these shortcomings. In particular, ASEAN plus 3 has invited the IMF to become more involved in regional economic integration efforts in two ways. First, since mid-2005, IMF staff have prepared and presented economic overviews for the ASEAN plus 3 Finance Ministers Deputies Meetings. Second, participants in the Chiang Mai Initiative (bilateral currency swap arrangements) made disbursement of 80 percent of the swap amount contingent on the borrowing country's participation in a sanctioned IMF stabilization program. Conference participants were eager to maintain these linkages and to look for other areas where IMF expertise could inform regional discussions and programs. Some suggested IMF participation in a discussion on regional exchange rate coordination.

Comment

17. (SBU) Asian officials and economists remain ambivalent about the IMF and the role it should play in the region. The public and politicians in the region continue in many cases to vilify the IMF

as the cause of the hardships brought on by the Asian financial crisis in 1997-1998. On the other side, economic officials and regulators argue in favor, usually more in private than in public, of retaining, if not bolstering, the IMF's technical advice and expertise. Even though Asia would be a primary beneficiary of more representative quotas at the Fund, Asian officials have not spoken up publicly in support of reform. Nor have they pushed the Europeans to give up quotas and board seats to make room for more Asian participation. Asian policy makers say they want more technical financial sector advice, but only 17 percent of Asian countries have participated in the IMF's Financial Sector Assessment Program (FSAP), the premier program in the field -- well below the 49 percent African participation rate. While IMF linkages to ASEAN plus 3 programs are encouraging, Asian economic officials need to show more leadership and engagement if they want a reformed IMF to meet their needs.

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